



McNally Bharat Engineering Company Limited

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REPORT OF THE AUDIT COMMITTEE OF MCNALLY BHARATENGINEERING COMPANY LIMITED RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION OF EMC LIMITED, MCNALLY BHARAT ENGINEERING COMPANY LIMITED AND MCNALLY SAYAJI ENGINEERING LIMITED WITH KILBURN ENGINEERING LIMITED AND THEIR RESPECTIVE SHAREHOLDERS

Members Present:

Mr. V.K. Verma	Chairman
Mr. S.R. Dasgupta	Member

In Attendance:

Mr. P.K. Ghosh	Whole Time Director & Group CFO
Mr. P.K. Chandra	Whole Time Director & COO
Mr. Dibakar Chatterjee	Company Secretary

1. Background

1.1. A meeting of the Audit Committee of McNally Bharat Engineering Company Limited ("Company") was held on 31 March 2016 to consider and recommend the proposed Scheme of Amalgamation which inter-alia provides for:

- Amalgamation of EMC Limited, McNally Bharat Engineering Company Limited and McNally Sayaji Engineering Limited with Kilburn Engineering Limited and their respective shareholders, under Sections 391 - 394 of the Companies Act, 1956 and other applicable provisions of Companies Act, 1956 and Companies Act, 2013; and
- conversion of the inter corporate deposits, of Kilburn Engineering Limited into equity shares under Section 62 of the Companies Act, 2013

in terms of the draft scheme of amalgamation ("Scheme") placed before the Audit Committee.

1.2. This report of the Audit Committee is made in order to comply with the requirements of SEBI Circular No CIR/CFD/CMD/16/2015 dated November 30, 2015 issued by the Securities and Exchange Board of India ("SEBI Circular").

1.3. The following documents were placed before the Audit Committee:

- Draft Scheme, duly initialed by the Company Secretary of the Company for the purpose of identification;



- Valuation Report dated 31 March 2016 prepared by M/s Sharp & Tannan, Independent Chartered Accountants, describing the methodology adopted by them in arriving at the Share Exchange Ratio;
- Fairness opinion dated 31 March 2016 ("**Fairness Opinion**") prepared Microsec Capital Ltd., a Category-I Merchant Banker providing the Fairness Opinion on the Share Exchange Ratio as recommended by M/s Sharp & Tannan; and

2. Proposed Scheme of Amalgamation

2.1. The Audit Committee noted the rationale and the benefits of the Scheme which, *inter-alia*, are as follows:

Rationale:

- (a) Amalgamation of EMC Limited (Transferor Company No 1), McNally Bharat Engineering Company Limited (Transferor Company No 2) and McNally Sayaji Engineering Limited (Transferor Company No 3) with Kilburn Engineering Limited (Transferee Company), with effect from the Appointed Date, is in the interest of the shareholders, creditors, employees and other stakeholders, of all the companies, as it would enable a focused business approach for the maximization of benefits to all stakeholders.
- (b) The Scheme does not have any adverse effect on either the shareholders or the employees or the creditors of all companies.
- (c) To integrate and consolidate the businesses of the Transferor Company No 1, the Transferor Company No 2, Transferor Company No 3 and Transferee Company in a single entity and consolidate resources and assets of all the companies for optimal deployment and enhanced overall efficiencies.
- (d) Consolidation will enable to capitalize on the large business opportunities through high end qualification in the engineering field and provide a total engineering and construction solution to its customers. It will become a complete solution provider pertaining to various sectors and undertake projects of much larger size. The dimension of the organization will enable it to now target giant projects which are presently being avoided by individual constituents due to constraints in terms of size, technology, qualification, geographical location etc factors. Pertaining to power sector, the organization will become a total solution provider for power plants as well as power transmission units.
- (e) Mutual resilience and diversification of expertise through consolidation of entities will make the organization less susceptible to economic downturns as well as sectoral slumps.
- (f) It would help the Companies to capitalise on the large business opportunity in the engineering field and provide an integral engineering and construction solution to its customers.
- (g) To enable better and efficient management, control and running of the businesses to attain operational efficiencies, cost competitiveness, create synergies and capitalize on the growth opportunities to the fullest extent.



- (h) Synergies arising out of consolidation of business will lead to enhancement of net worth of the combined business and reflection of true net-worth in the financial statements, and lead to improved alignment of debt and enhancement in earnings and cash flow.
 - (i) The transferee company would be able to better leverage on its large networth base and have enhanced businesses potential and increased capability to offer a wider portfolio of products and services with a diversified resource base and deeper client relationships.
 - (j) It would result in financial resources being efficiently merged and pooled leading to more effective and centralised management of funds, greater economies of scale, stronger base for future growth and reduction of administrative overheads (i.e. cost rationalization), which are presently being divided and dissipated between multiple separate entities. The amalgamation shall lead to greater efficiency in management of the businesses, simplicity and reduction in regulatory compliances and cost.
 - (k) It will improve and consolidate internal controls and functional integration at various levels of the organisation such as information technology, human resources, finance, legal and general management leading to an efficient organisation capable of responding swiftly to volatile and rapidly changing market scenarios.
 - (l) It would enable seamless access to strong corporate relationships and other intangible benefits of the companies built up over decades of experience, enhanced scale of operations and sharper focus and ultimately improve returns to create long term sustainable value for all stakeholders.
- 2.2. The Audit Committee reviewed the Valuation Report and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders of EMC Limited, McNally Sayaji Engineering Limited, Kilburn Engineering Limited and the Company.

3. Recommendation of the Audit Committee

Taking into consideration the Valuation Report and the Fairness Report, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval and for favourable consideration by the Stock exchange(s) and Securities and Exchange Board of India.

By Order of the Audit Committee

For and on Behalf of

MCNALLY BHARAT ENGINEERING COMPANY LTD

Vinayakumar
Chairman, Audit Committee
Date: 31.03.2016

